



## AUDIT & FINANCE COMMITTEE MINUTES

April 1, 2010

The Audit & Finance Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on April 1, 2010 at 11:01 a.m.

### COMMITTEE PRESENT

Scott Somers, Chairman  
Dina Higgins  
Kyle Jones  
Christopher Brady, Ex-Officio

### COMMITTEE ABSENT

None

### STAFF PRESENT

Bryan Raines  
Debbie Spinner

#### 1. Items from citizens present.

There were no items from citizens present.

#### 2. Discuss and make a recommendation on adjustments for fees for loaning City owned ITS/Traffic Signal equipment to contractors as proposed by the Transportation Department.

Transportation Director Dan Cleavenger advised that although the loaning of ITS/Traffic Signal equipment to a contractor seldom occurs, staff has a process and fees in place to address such a request to ensure that a City project is not delayed (**see Attachment 1**).

#### 3. Discuss and make a recommendation on adjustments to various fees and charges as proposed by Falcon Field Airport:

Airport Administration Supervisor Jim Law introduced Financial Supervisor Rick Welker and reviewed the proposed adjustments to fees and charges for Falcon Field Airport (**see Attachment 2**). He said that the T-hanger five percent rate adjustment brings Falcon Field's rates in line with other municipalities and to approximately 60 percent of private market rates.

In response to a question from Chairman Somers regarding the rate difference between Falcon Field and the private market, Mr. Law stated that Falcon Field's hangars, which were constructed more than twenty years ago, do not include many of the features of newer hangars such as automated doors and sprinkler systems.

Mr. Law advised that staff proposes to phase out the discounted fee for two tenants with more than twenty tie-downs at the airport. He added that the "cleaning deposit" will now be referred to as a "security deposit." Mr. Law said that the fencing and card accessible gate project is

ongoing, and he noted that each tenant would receive one access card at no cost with the opportunity to purchase additional cards at a cost of \$40 per card.

Chairman Somers stated that these items would be forwarded to the Council for consideration at a future date.

4. Discuss and make a recommendation on adjustments to various fees and charges as proposed by the Development and Sustainability Department.

Development and Sustainability Director Christine Zielonka said she would review the proposed changes (**see Attachment 3**).

In response to a question from Committeemember Higgins regarding the "Unauthorized Construction Fee," Ms. Zielonka explained that currently the fee imposed for unauthorized work performed by a professional was reduced when the work performed was for a nonprofit agency. She advised that there is no provision for a reduced fee in the State Statutes and therefore, "the change will require any contractor or design professional working without a permit to pay an investigation fee equal to the permit fee regardless of the business arrangement."

Ms. Zielonka said that several fees are being moved to Development Services, such as Code Compliance fees from Neighborhood Services and Downtown Development fees from Economic Development, in order to reflect the reorganization that occurred in the past year.

Responding to a question from Committeemember Higgins, Planning Director John Wesley advised that the fee difference between the Downtown District and all other districts (see page 2 of Attachment 3) reflects the fact that Economic Development chose not to raise fees for the Downtown District in the past few years. He explained that staff, recognizing the Council's emphasis on downtown development, is not proposing an increase at this time.

City Attorney Debbie Spinner responded to concerns expressed by Committeemember Higgins and Chairman Somers regarding the fact that the Downtown District has different fees than other areas of the City by advising that her office would review the matter.

Ms. Zielonka said that staff would also review the issue and provide information to the Committee. She explained that many of the items listed on the attachment are "cleanup" items that identify the responsible department.

5. Discuss and make a recommendation on adjustments to fees and charges for Special Regulatory Licenses as proposed by Business Services.

Business Services Department Director Ed Quedens introduced Business License and Revenue Collections Administrator Tim Meyer and stated that license fee updates are being proposed (**see Attachment 4**) in order to ensure consistency among several regulatory license fees and ensure that the fees are comparable to the fees of other valley communities.

Mr. Quedens advised that staff recommends establishing fees for certain liquor licenses that do not have fees associated with the application. He also reported that fee changes are being recommended for fortune tellers, park and swap activities, pawnbroker/secondhand dealers and teenage dance halls.

Discussion ensued relative to the fact that at a past meeting, fortune tellers spoke in support of having a license fee; and that staff's proposal is to reduce the fee rather than eliminate the fee.

City Manager Christopher Brady stated that he would review past meeting minutes regarding this issue.

Chairman Somers said that because the City provides no service for the fortune teller fee, he recommends that the fee be eliminated.

Further discussion ensued relative to the fact that staff's recommendation regarding the fortune teller fee would move forward for discussion by the full Council; and that staff will provide the Council with information on the fortune teller fees charged by other Valley cities.

6. Discuss and make a recommendation to eliminate fees for the Executive Budget Plan Book, CD and Five-Year Capital Improvement Program as proposed by the City Clerk's Office.

Budget Director Chuck Odom explained that the fees for bound documents (**see Attachment 5**) are proposed for elimination because the materials are now provided electronically.

7. Discuss and make a recommendation on adjustments to business rules, rates and fees for City of Mesa utility customers as proposed by the Water Resources, Energy Resources, Solid Waste and the Business Services Departments:

a. Terms and Conditions for the Sale of Utilities

Business Services Department Director Ed Quedens introduced Customer Information and Billing Administrator Priscilla Bertling, and he stated that staff's recommendation proposes language that clarifies unmetered service billing inconsistencies for multi-unit dwellings.

In response to a question from Committeemember Higgins regarding charges for the disposal of waste from recreational vehicles, Billing Operations Supervisor Lori Timbrook advised that mobile home parks have a sewer fee attached to their water usage and, if the park has a dump station, the park is charged a flat fee for the dump station.

b. Fees and charges for Utility Customers

Water Resources Department Director Kathryn Sorensen advised that staff recommends an adjustment that would combine the fee for turning off utilities with the fee for turning on utilities to simplify administration of the fees.

c. Utility Rates

City Manager Christopher Brady displayed a Power Point presentation (**see Attachment 6**) and said that rates include the following utilities: Electric, Natural Gas, Water, Wastewater, Solid Waste, and District Cooling. He noted that since last year's presentation to the Council of a five-year rate forecast, economic conditions have lowered the cost of projects as well as reducing the need to expand systems due to the slowdown in the growth of new development. Mr. Brady explained that these factors, in addition to the City's favorable bond rating, low interest rates

and using the Buy America Bonds Program reduced the amount of debt service to be incurred by the City. He said that a \$3 million reduction in debt service payments for FY2010/2011 is reflected in the proposed rate increases, and he noted that the projection through FY2014/2015 is a \$66 million reduction in debt service. Mr. Brady advised that the proposed rate increases have been reduced as follows:

	<u>Spring 2009 Proposal</u>	<u>Current Proposal</u>
Electric	0.0%	0.0%
Natural Gas	4.7%	2.5%
Water	7.1%	5.5%
Wastewater	8.6%	4.5%
Solid Waste	2.7%	0.0%
District Cooling	3.0%	0.0%

Mr. Brady reported that during a review of the Model City Tax Code, staff became aware that although the City historically collected sales tax on the Electric, Natural Gas and Water utilities, no tax was being collected on Wastewater services. He advised that customers would receive a 4.5% rate increase and be charged the sales tax of 1.75%. Mr. Brady advised that the Wastewater rate of increase was initially reduced to 6.5%, but staff recommended an additional two percent reduction to 4.5% to minimize the impact of the sales tax on the average customer's cost for service.

Ms. Sorenson said that the financial forecast includes the impact of the 91<sup>st</sup> Avenue/Palo Verde agreement and the Greenfield Water Reclamation expansion program, which has been extended out for several years.

Mr. Brady said that detailed information was available on the "Average Homeowner's Charges Survey" (**see Attachment 7**) and the spread sheets titled "Proposed Utility Rate Adjustments" and "Twenty-Five Year Residential Rate History" (**see Attachment 8**). He noted that Utilities represent only a part of the Enterprise Funds.

Responding to a question from Committeemember Higgins, Mr. Brady reviewed the data for the Gas Program Enterprise Fund (see page 3 of Attachment 8). He noted that the rate increases projected through 2014/2015 correspond to the increases in debt service.

Discussion ensued relative to the fact that gas price increases are passed through to the City's customers; that the City's Magma customers pay a higher rate than customers within the City limits and a lower rate than Southwest Gas customers; and that the "Average Homeowner's Charges Survey" reflects current rates in effect for other cities.

In response to a question from Chairman Somers, Solid Waste Department Director Willie Black advised that the cost to provide Solid Waste service to each residence is \$11 and the City charges \$23.

Mr. Brady said that an adjustment is required to the water rate structure because 80% of water expenses are fixed and 20% are variable while 25% of the revenue structure is fixed and 75% is variable.

Ms. Sorensen stated that implementing the rate structure adjustment would help to eliminate variables and stabilize revenues over time. She noted that the current system was implemented in the 19890's and was effective when the City was experiencing a period of rapid growth.

Mr. Brady advised that the topic of a rate structure adjustment would be placed on a future Committee meeting agenda.

Responding to a question from Committeemember Higgins regarding different fees based on the size of a home or the number of residents, Mr. Black advised that different fees are being proposed for manufactured home parks and recreational vehicle parks and a pilot program is planned that would provide blue barrel collection every two weeks in one area of the City with a reduced fee.

Further discussion ensued relative to the fact that a portion of the Utility revenues are transferred to the General Fund each year; and that the revenue transfer and fee charges could be reduced if the City had a primary property tax; but the overall cost to the customer would be the same.

Mr. Brady noted that utility revenues have been a more stable source of income during these economic times when sales tax revenues and property values have decreased dramatically. He added that the Magma rates would be placed on the agenda of a future committee meeting.

8. Discuss and make a recommendation on amendments to the Mesa Tax Code.

Business Services Director Ed Quedens introduced Audit and Tax Collections Administrator Roger Okin.

Mr. Okin advised that the proposed amendments to the Mesa Tax Code are based on the Arizona Model City Tax Code, which has been approved by the Municipal Tax Code Commission for adoption by all cities in the State of Arizona. He noted that the proposed ordinance (**see Attachment 9**) includes amendments that address Development Impact Fees (Sections 1 through 3), Solar Energy Devices (Section 4), Additional Extensions of Time to File Protests (Section 5), and Recordkeeping of Out-of-State Sales (Section 6).

9. Hear a presentation, discuss and provide direction to staff regarding the Investment of City funds.

Deputy City Manager Bryan Raines referred to the "February 2010 Investment Portfolio" report (**see Attachment 10**) and advised that a majority of the City's cash assets are invested in the Arizona State Treasurer's Local Government Investment Pool (LGIP), which charges a fee of six basis points. He noted that most of the larger cities in Arizona no longer participate in the LGIP and have contracted with private firms that provide a higher rate of return. He said that staff discussed the private firm option with prior Audit & Finance Committees, and that staff would like to prepare a report for the Committee that compares earnings generated by LGIP with earnings generated by a private firm.

Responding to a question from Chairman Somers regarding the possibility of higher risk outside of the LGIP, Controller Doug Yeskey stated that the types of investments would be similar, such

as government backed securities. He explained that the State pool maintains shorter maturity dates in order to accommodate requests from municipalities for large amounts of cash. Mr. Yeskey added that City funds are invested to maximize the return until expenditures are required.

Mr. Brady stated that contracting with an outside firm provides an opportunity for the City to maximize revenues, and he advised that Mr. Yeskey is responsible for ensuring that the City's funds are generating a return. He added that City policy (see page 2 of Attachment 10) and State Law restricts the types of investments that can be made by the City.

Mr. Yeskey responded to a question from Committeemember Jones by advising that the City lost \$6.6 million in the LPIG fund five or six years ago and that the City recovered approximately \$3.3 million of that amount. He advised that the City does not anticipate recovering the remaining amount.

In response to a comment from Committeemember Jones regarding the possibility of placing City funds in small, local banks, Mr. Raines advised that in recent years the City's policy has been to consolidate its accounts in a larger institution in order to minimize the bookkeeping required to track multiple accounts.

Committeemember Jones noted that the small, local banks have been more willing than larger institutions to loan money to small businesses in the community.

Mr. Brady stated that staff would review the policy.

Chairman Somers advised that all agenda items would move forward for Council consideration.

#### 10. Adjournment.

Without objection, the Audit and Finance Committee meeting adjourned at 12:06 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Audit & Finance Committee meeting of the City of Mesa, Arizona, held on the 1<sup>st</sup> day of April 2010. I further certify that the meeting was duly called and held and that a quorum was present.

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LINDA CROCKER, CITY CLERK

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Attachments (10)